

## Strategy

- Cost Cut,
- Transform Delivery,
- Get paid for transition delay & re-sequencing,
  - renegotiate

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## Desired Outcome

- Enter into a partnership negotiation

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## Minimum to required to sustain the contract

- Get paid for transition delays and resequencing -  
\$15M
- Get paid for additional volumes
- etc.

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## Back Up Materials

Major Cost challenge Details and

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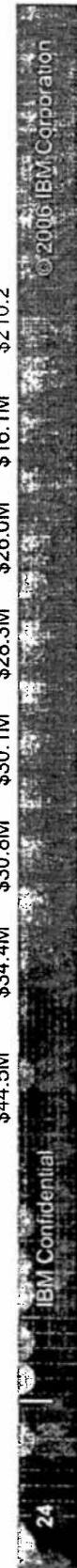
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## Summary of the major financial impacts to the WellPoint Contract year to year (In \$millions)

<u>Financials</u>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
Resolution	\$4.7M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M

<u>Financials</u>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
Blended Storage vs Tiered	\$9.0M	\$10.2M	\$10.0M	\$10.0M	\$8.8M	\$7.1M

Totals	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
	\$44.5M	\$34.4M	\$30.8M	\$30.1M	\$28.3M	\$26.0M	\$16.1M	\$210.2



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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

<b>Financials</b>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
User ID Admin (41 FTP)	\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$6.7M	\$6.7M

<b>Financials</b>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
Change Management (26 FTP)	\$4.2M	\$4.0M	\$3.8M	\$3.6M	\$3.4M	\$3.3M



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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

### Financials

	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
Lotus Notes and Exchange (6 FTP)	\$1.0M	\$ .9M	\$ .9M	\$ .8M	\$ .8M	\$ .8M	\$ .4M	\$5.6M

### Financials

	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
Level 1 UID	\$0.2M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$ .8M

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions) Cont'd

### Financials

	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
Filenet	\$1.6M	\$1.5M	\$1.4M	\$1.4M	\$1.3M	\$1.2M	\$ .6M	\$ 9.0M

### Financials

	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact	2012 Impact	Total Impact
Transition Delay	\$8.3M	\$2.7M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$11.0M

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## Summary of the major financial impacts to the WellPoint Contract (In \$millions)

<b>Financials</b>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
Middleware Support (30 FTP)	\$4.9M	\$4.6M	\$4.4M	\$4.2M	\$4.0M	\$3.8M

<b>Financials</b>						
	2006 Impact	2007 Impact	2008 Impact	2009 Impact	2010 Impact	2011 Impact
DBA Support (24 FTP)	\$3.9M	\$3.7M	\$3.5M	\$3.3M	\$3.2M	\$3.0M

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## Back Up Materials

Major volume related issues and  
gaps upon contract inception

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## Major volume related Issues

- Middleware Support
- DBA Support
- User ID Administration
- Change Management
- Lotus Notes and Exchange

- **Summary --- Additional 127 FTEs**
  - \$20.7 million annually\*
  - > \*Estimated, using average rate card from original contract



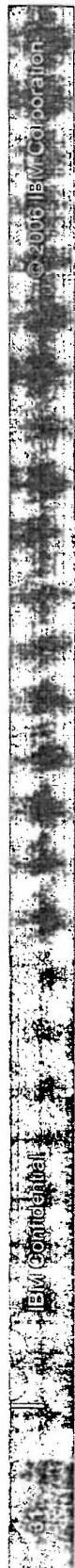
## Major volume related issues: Middleware support

### □ Issues

- Volume gap in original assumptions in terms of labor to support middleware applications.
- The team spends substantial time investigating countless web enabled application failures to “prove” the issue is not infrastructure related.
- In addition, we assist the application team with defect resolution, problem determination, debug support and process support.

### □ Volume Gap

- 30 FTPs more than planned for and assumed
  - \$4.9 million 2006; \$27.7 for total contract



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## Major volume related issues: DBA Support

- Scope
  - Oracle 509 Instances/Server/Subsystem and 512 Databases
  - Sybase 124 Instances/Server/Subsystem and 1,115 Databases
  - UDB 102 Instances/Server/Subsystem and 376 Databases
  - MS SQL 229 Instances/Server/Subsystem and 2,916 Databases
  - IMS & DB2 59 Instances/Server/Subsystem and 22,124 Databases
  - M204 5 Instances/Server/Subsystem and 927 Databases
- Issues
  - Volume gap in cost case assumptions
  - Engagement team only received Classic Wellpoint Numbers after signing and did not receive Classic Anthem numbers and volumes In addition to the DB instance volume gap, there are substantial higher number of legitimate small service requests than were anticipated
  - Additional impact analysis found that our support ratios are benchmarked in line with competency numbers
- Volume Gap
  - 24 FTEs more than planned for and assumed
    - \$3.9 million 2006; \$22.1 million for total contract

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## Major volume related Issues: User ID Administration

### ■ Scope

- The team provides support for the management and administration of ids for access to the Supplier-operated Systems, networks, Software, and with respect to WellPoint Data, administering access per WellPoint's instructions.

### ■ Issues

- Volume gap against original model assumptions.
  - It was estimated during the engagement that the end user population was 20,000 and there would be on average 3 requests per person per year, for a total of 60,000 IDs to manage per year.
- Currently we are experiencing 39,000 users and 156,000 IDs (4 per person per year).
- Between 1/1/2006 and 3/15/2006, 25,569 requests have been completed, for a yearly estimate of approximately 125k.
- Need to establish a charging mechanism to accommodate unplanned growth

### ■ Volume Gap

- 41 FTPs more than planed for and assumed
  - \$6.7 million 2006; \$46.9 million for total contract

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## Major volume related Issues: Change Management

- **Scope**
  - The team provides support for moving all programs from the application development and test environments to production environments. The team also supports and integrates all production control and scheduling functions. (all within contract scope)
- **Issues:**
  - SLA: Max. Percent of Failed Changes 1.00%
  - SLA: Max. Percent of Emergency Changes 15.00%
- **Volume Gap:**
  - 26 FTPs more than planned for and assumed
    - . \$4.2 million 2006; \$23.9 for total contract

## Major volume related Issues: Lotus Notes and Exchange

### ■ Scope

- The team provides support for e-mail and collaborative applications. The team supports 18 mail servers, 31 infrastructure servers, 45k mailboxes and Domino app support for 14 servers, 3000 apps

### ■ Issues

- WLP migrated off of Lotus Notes for Mail but not databases (Domino application DBs), therefore IBM continues to support multiple collaborative applications (Three FTEs). Solution assumed moving totally to an Exchange environment.
- WellChoice merger minimally increased costs to support the Notes connector. We are preparing a SOW to add Notes connector support to prevent further scope creep.

### ■ Volume Gap

- 6 FTEs more than planned for and assumed
  - \$1 million 2006; \$5.6 million for total contract

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i3 Looks more like 2 people Also might delete this one because e mail is a hot one for the customer. there is some scope of work  
we never intended  
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## Back Up Materials

Transition related delays and co

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## Datacenter move, location, consolidations and sequencing

- **Richmond Data Center Decision: July – August 2005**
  - Reduction in services and a reduction in price
  - LOA to support the Richmond decision in August 2005
  - November, 2005 leadership changes in WellPoint required review of decisions regarding Richmond Data Center.
  - Transition delay requested by WellPoint in Early November 2005
  - Sequencing of data center consolidation was to be the same
- **Change in sequencing of data center move: December, 2005**
  - Customer requested in order to meet the needs of their business
  - Customer decided the re-solution on March 21, 2006
  - Re-sequencing datacenter moves requires configuration rework and throwaway work
  - Delayed overall transition
  - Re planned overall transition strategy and data center move
- **Financial Impact**
  - \$11.0 million for delay in transition and 4.7 million for re-sequencing – total \$15.7 million.  
One important component that drove the delay was the lack of network infrastructure to support the moves as originally planned.
  - *WellPoint's decision to modify/delay SCON, sequencing, the data center solution etc. has had a material, adverse impact on IBM's assumed cost model and on IBM's ability to deliver standardization and stability to the environment*

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## Back Up Materials

Scope Gaps

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## WellPoint Scope that IBM is doing

### ■ Functional areas

#### – Filenet

- No contract scope reference
- WLP has other Filenet scope in house
- Sized at about 10 FTEs

<u>*Financials Filenet</u>				
2006 Impact	2007 Impact	2008-12 Impact	Total Impact	
\$1.6M	\$1.5M	\$5.9	\$9.0M	

#### – UID Admin Level 1 Helpdesk support

- No contract scope in Helpdesk
- Sized at about 1 FTE

#### – Wisconsin LAN/WAN support

- Sized at .25 FTE

### ■ Negotiation Strategy

- Move the work back to WellPoint
- Price the work and WellPoint pays

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## IBM scope that WellPoint is doing

### ■ Functional areas

- Anti-Virus Patching
- Richmond NOC monitoring Anthem heritage servers

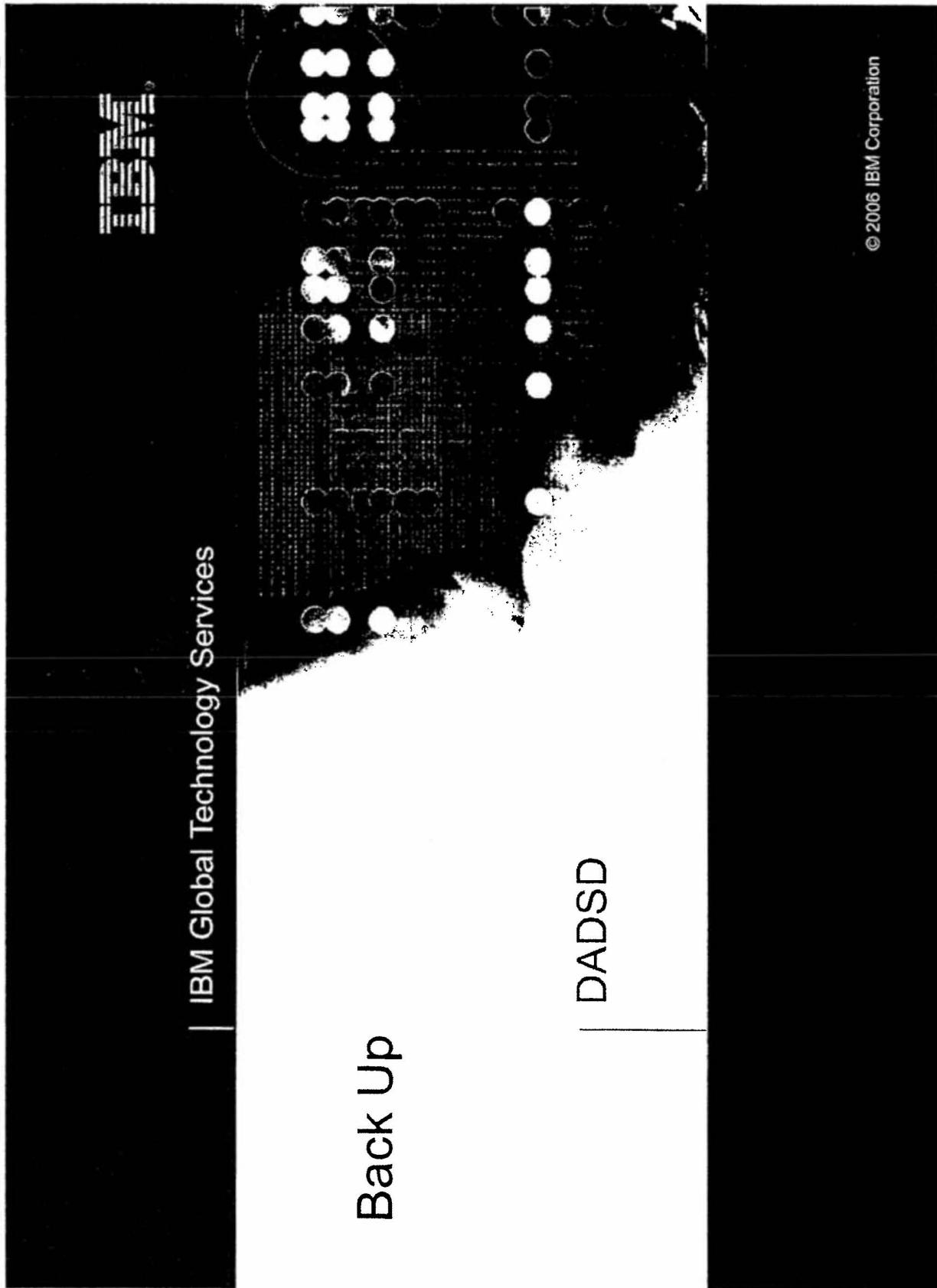
### ■ Negotiation Strategy

- Finalize plans already in progress to move work to IBM



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## Blended vs. Tiered Storage Rates

- **Scope**
  - IBM currently provides a blended rate of \$0.78/gig for midrange storage.
- **Issues & History**
  - Post signing discovered a sizeable industry gap in our original solution pricing when working through the process.
    - Baseline early input from WLP was 563 TB, later input which became the contract baseline was 809 TB, but cost case and pricing was built on 563TB
      - Actuals around 700 TBs so we are undercharging them, and paying RRCs monthly
  - Tiered solution rates would be \$2.02 - \$2.40 -\$2.45/gig vs.. \$0.78/gig current blended rate.

Financials			
2006 Impact	2007 Impact	2008-12 Impact	Total Impact
\$9.0M	\$10.2M	\$39.2	\$58.4M

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## Back Up Materials

## Other contract items

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## Other WellPoint Contract Items: Server Lease Termination

- **Gap between assumed server lease termination and refresh point**

- Cost case assumed refresh at termination of assumed lease (36 months in most cases)
- Contract stipulates server refresh at 48 months
- Refresh cost is recovered via HSC revenue for the first \$14.6M in refresh
- 2005 – 2008 cost to bridge assumed leases to refresh point is \$5.3M

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## Other WellPoint Contract Items: Audits

### a Issues & History

- Volume gap against original assumption .
- We priced based on two audits per year. WellPoint has over 50 audits planned for 2006 (approximately 20,000 hours).
- There is no SLA, but contract obligates us to complete audits in three business days. The customer wants us to complete this in two days and generally we have met that request.

### Financials

<u>Cost Case</u>	<u>FTPs as of 7/1/05</u>	<u>FTPs as of 3/15/06</u>	<u>Cost Difference Since Inception</u>	<u>Cost Difference Remaining Contract</u>
2 FTPs (QA Mgr)	.25 FTPs	2.75 FTPs	\$0k	\$55k
0 FTPs	7 FTPs	11 FTPs	\$700k	\$8,140k

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## Back up Information

Business issues and contract terms  
current WellChoice contract

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## Computer Associates and BMC License agreements

- **Scope**
  - CA/BMC License Agreements assumed in Empire's cost case
- **Issues & History**
  - IBM assumed financial responsibility for Empire's existing Mainframe/Midrange Term license agreements
    - IBM paid \$4.6M in 2005 for BMC licenses versus \$1.9M assumed in cost case
      - 2006 assumed BMC replaced, YTD'06 \$1.1M paid versus FY'06 \$0.5M assumed in cost case
    - IBM paid \$6.7M in 2005 for CA licenses versus \$3.1M assumed in cost case
      - At end of 2005, IBM entered into long-term SW license agreement with CA for remaining life of contracts. Empire cost reduction of \$1.5M from 2005-06. Exposure remains due to original costing.

<u>Financials</u>				
2005 Impact	2006 Impact	2007 Impact	2008 Impact	Total Impact
6.4M	3.5M	2.4M	2.7M	\$30M+

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# Staten Island Facility

- **Scope**
  - Empire's lease of their Staten Island Data Center
- **Issues & History**
  - IBM originally assumed financial responsibility for 50% of Empire's space in Staten Island
  - Options taken to re-evaluate space requirements has taken Empire's utilization down to 25-29%

## Financials

2005 Impact (25%-50%)	2006 Impact	2007 Impact	2008 Impact	Total Impact
1.5M	1.6M	1.8M	1.9M	\$15.6M

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